

ecomaine

Memorandum

DATE: January 5th, 2016
TO: Chairman and Members of the Board
FROM: Kevin H. Roche, CEO/General Manager
SUBJECT: Agenda for the Finance Committee

There is an **ecomaine** Finance Committee Meeting scheduled for the Tuesday, January 12th, 2016 @ 4PM. The agenda for this meeting is as follows:

1. Approval of Minutes (**Attachment A1 & A2**)
2. Review/Discussion of the Investment Policy (**Attachment B**)
Presentation: Dan Lay and Molly Reinfried from HM Payson
3. Cash Disbursement Report
4. Review of Financial Statements FY 16
 - Statement of Revenues and Expenses
 - Statistical Data
 - Balance Sheet
 - Statement of Cash Balances
 - Capital Expenditures
 - Status of Accounts Receivable
5. Other:

Future Meetings:

Finance Committee Meeting: January 12th, 2016 @ 4PM
Full Board Meeting: January 21st, 2016 @ 4PM
Recycling Committee Meeting: January 28th, 2016 @ 4PM
Executive Committee Meeting: February 11th, 2016 @ 4PM
Full Board Meeting: March 17th, 2016 @ 4PM
Recycling Committee Meeting: March 24th, 2016 @ 3PM
Finance/Budget Workshop: March 24th, 2016 @ 4PM

Audit Committee Meeting: April 21st, 2016 @ 3PM
Full Board Meeting: April 21st, 2016 @ 4PM
Finance Committee Meeting: May 19th, 2016 @ 3PM
Executive Committee Meeting: May 19th, 2016 @ 4PM
Recycling Committee Meeting: May 26th, 2016 4PM
Full Board/Annual Meeting: June 16th, 2016 @ 11:30AM

The Board of Directors may wish to go into Executive Session for any of the above items under Section 405 of Title 1 of the Maine Revised Statutes ([per the following legislative website: http://janus.state.me.us/legis/statutes/1/title1ch13sec0.html](http://janus.state.me.us/legis/statutes/1/title1ch13sec0.html))

Memorandum

DATE: October 20th, 2015
TO: Chairman and Members of the Board
FROM: Kevin H. Roche, CEO/General Manager
SUBJECT: Finance Committee Minutes – October 15th, 2015

There was a **Finance Committee Meeting** held on the date noted above. The meeting was called to order by Matthew Frank, Chairman @ 4PM.

Item #1 - Minutes:

Len Van Gaasbeek made a motion to accept the minutes as written. The motion was seconded by Mike Shaw. All in Favor.

Item #4 –: Five Year Financial Plan and Review of Reserves

Kevin Roche presented an overview of today's discussion on the 5 year financial plan. In particular, he noted the assumptions we used in the 5 year plan and suggested we spend some time looking at reviewing the plan with various alternative assumptions.

Arthur Birt presented a comparison of last year's discussion on the 5 year plan versus where we landed this year. He also reviewed the base case of the 5 year plan and then went through the 9 others scenarios that included changing the assumptions.

A lengthy discussion continued in the Committee. It was noted that the downturn in our cash position was by design. The committee agreed that the financial relief was placed on the reserve policy as our most significant priority and that when assessments were eliminated and the tipping fee was decreased by 20%, this would have a significant impact on cash flow going forward. Rod Regier requested that the minutes reflect the assumptions we used in the base case.

- MSW Volume – Reduction to 175,000 tons from FY 16 budget level of 182,000 tons to reflect boiler capacity over long haul
- MSW Tipping Fees – (including owners) flat in FY 16 to FY 16 budget – 2% increase each year thereafter
- Recycle Volume – flat to FY 16 budget for all years
- Recycle Revenue – FY 16 is flat to FY 16 budget – FY 17 and remaining years up 14% (average of three years -- FY 14 thru FY 16)
- Electrical Volume – Flat to FY 16 Budget (87,442 MWH) for all years except FY 20 when we assume the Turbine Overhaul and volume is down to 77,551 MWH's (same as FY 15)
- Electrical Rates – Flat to FY 16 Budget for all years – but down from FY 15 reflecting new power contract
- Investment Income – minimal income assumed
- Capital Expenditures – Major items include Crane Rebuild (\$1.7 million in FY 16), Ash Handling Project (\$3 million in FY 17-18), Turbine Overhaul (\$2.5 million FY 20), and Landfill Expansion (\$2.7 million in FY 20-21).

The committee concluded that no changes were needed at this time (in the 5 year plan as presented or in the reserve policy) and that it should be reviewed again next year.

Len Van Gaasbeek made a motion to adjourn. The motioned was seconded by Mike Shaw. All in favor.

Present:

Maxine Beecher, Linda Boudreau, David Cole, Matthew Frank, Caleb Hemphill, Troy Moon, Anthony Plante, Rod Regier, Bill Shane, Mike Shaw, Ed Suslovic, John Tibbetts & Len Van Gaasbeek

Staff:

Arthur Birt & Kevin Roche



Memorandum

Attachment A2

DATE: January 5th, 2016
TO: Chairman and Members of the Board
FROM: Kevin H. Roche, CEO/General Manager
SUBJECT: Finance Committee Minutes – November 10th, 2015

There was a **Finance Committee Meeting** held on the date noted above. The meeting was called to order by Matthew Frank, Chairman @ 4:10 PM, however, a quorum was not present.

Item #1 - Minutes:

The minutes were reviewed but not approved due to the lack of a quorum.

Item #2 – Presentation: Investment Advisor HM Payson

Daniel Lay and Molly Reinfried from HM Payson presented the results of **ecomaine's** investment portfolio to the committee.

The chairman asked the Investment Advisors if we should consider any changes and Daniel Lay suggested that **ecomaine** consider a higher asset allocation in equities. The Committee had a lengthy discussion on the asset allocation options. While unable to vote on a motion (due to lack of quorum), the Committee members present felt that there was general agreement to recommend that the Executive Committee hear a presentation from HM Payson and consider increasing the asset allocation in equities.

Item # 3- Cash Disbursements:

Matthew Frank reviewed the Cash Disbursement report and was satisfied with the findings.

Item #4 – Financial Summary:

Arthur Birt reviewed the year to date financial statements.

Meeting was adjourned at 6PM.

Present:

Linda Boudreau, Matthew Frank, Rod Regier, Bill Shane, Mike Shaw & Len Van Gaasbeek

Staff:

Arthur Birt & Kevin Roche

CASH RESERVE & INVESTMENT POLICY

RESERVES

As part of strengthening **ecomaine's** financial position, we will establish and fund the reserves outlined below with the knowledge that general economic conditions and other **ecomaine** needs may impact on the timing of the funding of these reserves. There may also be conditions that arise requiring the **ecomaine** board to authorize the use of a reserve in a manner not originally intended for unanticipated financial issues. Therefore, with Board approval, funds from a reserve (with the exception of the Required Landfill Closure / Post Closure Reserve) could be used to cover other areas.

FAVORABLE CASH FLOW

Objective: To provide financial relief to owner communities when the financial position of **ecomaine** permits it.

OPERATING CASH RESERVE

Objective: To provide routine operating cash and financial security for extraordinary events that could cause a significant decrease in operating revenues or increase in operating expenses. These would be used to fund operations until any necessary adjustments can be made to provide sufficient cash flow to maintain operations.

Goal: We will build and maintain a balance of six months of cash operating expenses.

RECYCLING REVENUE AND COST SHARING RESERVE

Objective: To reserve funds that will provide relief to owner member communities in the event of weak recycling markets. Monies in this fund will be used to partially or fully offset amounts due from owner member communities under our Recycling Revenue and Cost Sharing Policy.

Goal: We will establish a reserve totaling \$500,000 for this purpose.

SHORT TERM CAPITAL RESERVE

Objective: To reserve funds for routine capital projects in the event of unanticipated circumstances.

Goal: We will establish a reserve equal to approximately 12 months of short term capital spending.

LONG TERM CAPITAL RESERVE

Objective: To reserve funds for new capital projects which have not been provided for in the annual capital plan. New capital projects are large projects in which the necessity and timing is not known at the present time. These could be projects to upgrade the current facilities or add additional capacity or functionality. It is our intent to fund these projects with internal cash flow to the extent possible but economic conditions and necessity may dictate that we issue some long term debt.

Goal: We will establish a reserve equal to the greater of \$3 million or the next year's long term capital spending.

DISCRETIONARY LANDFILL CLOSURE / POST CLOSURE RESERVE

Objective: To fund from internal cash flow a discretionary amount periodically for the landfill closure and post closure care costs during the remaining useful life of the landfill. Regulation, technology and other factors will impact the cost and life but as of June 30, 2010, this liability is estimated to be \$22.2 million in today's dollars and it is expected that the landfill will need to be closed and capped in 2038.

Goal: We will establish a reserve that will fully fund this liability by the time the landfill is closed.

REQUIRED LANDFILL CLOSURE / POST CLOSURE RESERVE

Objective: To provide funding for a Landfill Closure / Post Closure Reserve account as required by section 8 of the Interlocal Solid Waste Agreement dated December 1, 2005.

Goal: We will immediately establish a reserve for \$300,000 to meet the terms of this agreement.

INCOME EARNED

Income earned on reserve accounts shall accrue to the respective reserve account.

RECORD KEEPING

These funded reserves may be maintained in separate accounts at financial institutions or may simply be reported separately in the **ecomaine** financial statements whatever is most efficient for **ecomaine**.

PERIODIC REVIEW

Five year cash flow projections will be reviewed annually with the **ecomaine** board.

INVESTMENTS

SCOPE

This policy shall apply to the investment management of all **ecomaine** cash accounts including demand deposits and any reserve funds that are established under this policy. At all times, investments will be managed in accordance with Title 30-A, Sections 5706 through 5719 of the Maine Revised Statutes (see attached) and any revisions to these Statutes will become part of this policy immediately upon being enacted. Board responsibilities as identified in this policy may be delegated to the appropriate committee or staff member.

OBJECTIVES

The principal investment objectives for **ecomaine** are:

- **Safety** – to avoid unreasonable risk while preserving both the capital and the purchasing power of that capital. It is understood that no investment is totally free of risk, and occasional measured losses are inevitable in a diversified portfolio. Risk may include the quality of the investment, the qualifications of the institutions and advisors we deal with, the

diversification of the portfolio, the movement of interest rates, inflation and the general state of the economy.

- **Liquidity** – to maintain sufficient liquidity to meet all operating requirements as may reasonably be anticipated by structuring the portfolio with investments that mature as the need for cash occurs.
- **Returns** – to generate a long-term rate of return in the portfolios that is commensurate with the appropriate blended benchmark returns that coincide with the asset allocation for each portfolio over an economic cycle, taking into account risk and liquidity needs.

Each of these factors will be weighted depending on the objective and goal for each reserve account.

PRUDENCE & RESPONSIBILITIES

The standard of prudence to be used for managing our investments shall be Title 30-A, Section 5718 of the Maine Revised Statutes which, in general, states that investments shall be made with the judgment and care that persons of prudence, discretion and intelligence, under circumstances then prevailing, exercise in the management of their own affairs, not for speculation but for investment, considering safety, income and maintenance of liquidity.

Authorized **ecomaine** employees acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion.

ETHICS AND CONFLICTS OF INTEREST

ecomaine personnel involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair or create the appearance of an impairment of their ability to make impartial investment decisions. These individuals shall disclose to **ecomaine** any material financial interests they have in financial institutions that conduct business with **ecomaine** and they shall subordinate their personal investment transactions to those of **ecomaine**.

DELEGATION OF AUTHORITY & INTERNAL CONTROLS

Under the Maine Revised Statutes and the **ecomaine** bylaws, responsibility for the investment of **ecomaine** funds covered by this Policy resides with **ecomaine**. Staff will assist the Board in developing policies and procedures and will implement these policies and procedures after approval by the **ecomaine** board. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

Staff will develop written procedures designed to prevent losses of **ecomaine** funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by **ecomaine** employees. Proper documentation for all investment transactions shall be prepared and maintained for an appropriate amount of time.

Staff may engage the support services of outside professionals in regard to its investment program, so long as it can be demonstrated that these services are advantageous or that they provide necessary financial protection of **ecomaine's** financial resources.

SELECTION OF ADVISORS

Management will, at least every five years, issue an RFP seeking investment services for **ecomaine** pursuant to 30-A M.R.S.A. § 5706(4). Services are to consist of advice, the safekeeping of the funds, collection of interest and dividends, and any other fiscal service that is normally covered in an advisory agreement. Other than Demand Deposit amounts (see below) all **ecomaine** investment activities as addressed in this Policy are to be provided by the selected firm. The Board will approve this selected firm.

All Advisors who desire to become qualified for **ecomaine** investment management must meet all requirements set forth in Section 5706(4) and supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of FINRA (Financial Industry Regulatory Authority) certification (not applicable to certificate of deposit counterparties)
- Proof of registration to buy and sell securities in the State of Maine
- Certification of having read understood and agreed to comply with **ecomaine's** Cash Reserve and Investment Policy.
- Evidence of adequate insurance coverage (FDIC, SIPC, or other appropriate collateral)

When selecting Advisors, consideration will be given to local or regional firms as long as they meet the standards set forth in this policy. The selection of Advisors will be on the basis of their expertise in institutional cash management and their ability to provide services for **ecomaine** along with their fee structure.

Once selected the firm shall be required to resubmit the above on an annual basis and **ecomaine** may review the financial condition and registration annually for the selected firm.

AUTHORIZED SECURITIES AND TRANSACTIONS FOR ALL INVESTMENTS FAVORING LOWER RISK AND HIGHER LIQUIDITY

Monies to be invested under this investment philosophy (of lower risk and higher liquidity) include any cash in excess of the reserves as defined above, 100% of the Operating Reserve, 100% of the Required Landfill Closure / Post Closure Reserve, 100% of the Recycling Revenue & Cost Sharing Reserve, and any Fixed Income Investments associated with the remaining reserves (see below).

As noted above the investment philosophy for these funds favors lower risk and higher liquidity. The need for the funds will be "near term" and the asset allocation in the portfolio should be flexible depending upon the outlook for the economy, the securities markets, and the anticipated cash flow needs. Income received from these funds is to be re-invested in these reserves. The investment of these funds will be in the types of securities and transactions listed below and all are to be guaranteed by the Federal Government or one of its agencies backed by the Federal Government.

1. Demand Accounts & Time Certificates of Deposit: To be provided by institutions insured by the Federal Deposit Insurance Corporation (FDIC), The National Credit Union Share Insurance Fund (NCUSIF), or the successors to these federal agencies. If the amount deposited exceeds the insurable levels the excess must be collateralized by securities

authorized by the Federal Home Loan Bank (FHLB). Time Certificates of Deposit will have maturities not exceeding three years.

2. U.S. Treasury Obligations: Treasury Bills, Treasury Notes and Treasury Bonds with maturities not exceeding three years from the date of trade settlement.
3. Federal Instrumentality Securities: Debentures, discount notes and callable securities, with maturities not exceeding three years from the date of trade settlement, issued by the following only: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Home Loan Mortgage Corporation (FHLMC) and Student Loan Marketing Association (SLMA).
4. Money Market Mutual Funds: registered under the Investment Company Act of 1940 which (1) are “no-load” (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of \$1.00; (3) limit assets of the fund to U.S. Treasury Obligations, Federal Instrumentality or Agency Securities or repurchase agreements collateralized by such securities; and (4) have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2a-7.

It is the intent of the **ecomaine** board that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be preapproved by the Board.

ecomaine investment performance will be reviewed periodically by management with the Board. Fixed income investments will be compared to the appropriate bond index (e.g. Barclays Aggregate, Barclays U.S. Treasury, etc) based upon bond maturity length. The goal of the fund will be to maintain over a normal market cycle (5 years) an annual rate of return on a comparable aforementioned index portfolio.

AUTHORIZED SECURITIES AND TRANSACTIONS FOR INVESTMENTS FAVORING REDUCED LIQUIDITY, AND GREATER RETURNS.

As detailed in this policy, **ecomaine** maintains reserves for Short Term Capital needs, Long Term Capital needs and for the funding of the Discretionary Landfill Closure / Post Closure Reserve. A portion of these “longer term funds”, due to their nature, are invested under a longer-term investment perspective to include a conservative and balanced portfolio of equity and fixed income investments. There is less interest in liquidity and more interest in returns with safety as the primary focus. Income received from these funds is to be re-invested in these reserves.

The Short Term Reserve is to hold not more than 0% in equities, the Long Term Capital Reserve is to hold not more than 33% in equities and the Discretionary Landfill Closure / Post Closure Reserve will hold not more than 50% in equities. To the extent the Reserve Funds listed in this paragraph are managed by a financial institution or investment advisor pursuant to Section 5706(4), “Equities” shall include, but not be limited to, individual equities, equity mutual funds, bond mutual funds, or other investments that 1) may risk loss of principal, and 2) are subject to Maine law and the Prudent Investor Rule. No single fixed income security will comprise more than 10% of the total value of each of the reserves, unless fully backed by the federal government or its agencies and instrumentalities.

The balance of each of these reserves (non equity portion) will be in investments as described under **AUTHORIZED SECURITIES AND TRANSACTIONS FOR ALL INVESTMENTS FAVORING LOWER RISK AND HIGHER LIQUIDITY.**

All reserve funds must be invested in accordance with 30-A M.R.S.A. §§ 5706-5719 or managed by a qualified financial institution or investment advisor pursuant to Section 5706(4).

ecomaine investment performance will be reviewed periodically by management with the Board. Equity investments are to be measured against the asset class bench mark (e.g. S&P 500 Index, Russell Midcap Index, MSCI Emerging Markets Index, etc). The goal of the fund will be to maintain over a normal market cycle (5 years) an annual rate of return on a comparable aforementioned index portfolio.

POLICY REVISIONS

This policy shall be reviewed periodically by the Board and may be amended as conditions warrant.